

## University of California, Hastings College of the Law UC Hastings Scholarship Repository

---

Propositions

California Ballot Propositions and Initiatives

---

1988

# New Prison Construction Bond Act Of 1988

Follow this and additional works at: [http://repository.uchastings.edu/ca\\_ballot\\_props](http://repository.uchastings.edu/ca_ballot_props)

---

### Recommended Citation

New Prison Construction Bond Act Of 1988 California Proposition 80 (1988).  
[http://repository.uchastings.edu/ca\\_ballot\\_props/997](http://repository.uchastings.edu/ca_ballot_props/997)

This Proposition is brought to you for free and open access by the California Ballot Propositions and Initiatives at UC Hastings Scholarship Repository. It has been accepted for inclusion in Propositions by an authorized administrator of UC Hastings Scholarship Repository. For more information, please contact [marcusc@uchastings.edu](mailto:marcusc@uchastings.edu).

# New Prison Construction Bond Act of 1988

## Official Title and Summary Prepared by the Attorney General

**NEW PRISON CONSTRUCTION BOND ACT OF 1988.** This act provides for a bond issue of eight hundred seventeen million dollars (\$817,000,000) to provide urgently needed funds to relieve overcrowding in the state's prisons, county jails, and Youth Authority facilities through new construction.

## Final Vote Cast by the Legislature on SB 468 (Proposition 80)

Assembly: Ayes 66  
Noes 1

Senate: Ayes 33  
Noes 0

## Analysis by the Legislative Analyst

### Background

In recent years there has been a large increase in the number of people sent to the state's adult prisons and youth correctional institutions and to county jails. This trend is expected to continue. These facilities were not designed to house this increase.

**Adult Prison System.** In 1981 the prison system had room to house 23,000 inmates. By June 1988 the state had expanded the system to house 43,000 inmates. At that time, however, the system held about 67,000 inmates. By July 1993 the Department of Corrections expects an inmate population of about 93,000.

The state is addressing the prison capacity problem in several ways. In most prisons, the department is housing two inmates in cells intended to house only one. The department has also converted gymnasiums, classrooms and other space into temporary dormitories. In addition, since 1981, the state has committed \$2.5 billion from three sources to increase the prison capacity to 51,000 beds.

About \$1.2 billion of the money for the new state prisons has come from prison construction bond funds approved by the voters and about \$100 million from the state's General Fund. The state has financed the remaining amount, about \$1.2 billion, using lease-revenue bonds. These lease-revenue bonds are repaid from the state's General Fund, and are not subject to approval by the voters.

In addition to these steps, the department plans to build more prisons, to improve existing prisons, and to complete new prisons now under construction. These steps will raise the total capacity to 70,000 inmates. The department expects this work to cost almost \$1.7 billion. The department plans to fund this effort with money from this bond measure, a future bond measure and lease-revenue bonds.

**Youth Correctional Institutions.** The state's existing youth correctional institutions were built to house about 5,900 wards. In June 1988, there were about 9,000 wards in these institutions. By June 1992, the Department of the Youth Authority expects this number to increase to 9,800. In order to house this additional population, the state currently is building facilities to house about 500 wards and plans to construct additional facilities for 2,400 wards. The department expects these additional facilities to cost about \$260 million. The department also plans to overcrowd all institutions, existing and planned, by about 12 percent.

**County Jails.** The Board of Corrections estimates that this bond measure, combined with existing state bond measures and money contributed by the counties, would permit renovation and expansion of county jail facilities to house 65,000 inmates statewide by 1990. Even with these steps, the Board of Corrections states there will be a shortage of space for an estimated 11,500 inmates in county jails at that time. By 1995, the board estimates that the statewide average daily jail population will increase to about 105,000 people.

### Proposal

This measure authorizes the state to sell \$817 million of general obligation bonds for acquisition, construction, renovation, remodeling, and deferred maintenance of state youth and adult correctional facilities and county jails. The money would be deposited in the 1988 Prison Construction Bond Fund, created by this measure. General obligation bonds are backed by the state, meaning that the state will use its taxing power to assure that enough money is available to pay off the bonds. The state will use General Fund revenues to pay the principal and interest costs on the bonds. General Fund revenues come primarily from the state corporate and personal income taxes and the state sales tax.

This measure:

- Allows, with specified notification to the Legislature, proceeds from the bond sale to be transferred to prison construction bond funds approved by the voters in 1981, 1984, and 1986.
- Provides for \$40 million to be available to the Board of Corrections to fund certain county jail projects and to pay for administrative costs associated with prior county jail bond measures. In 1984 when the Legislature passed the County Jail Capital Expenditure Bond Act, it was expected that the \$40 million would become available from interest earnings on those bond funds and other bond funds already approved by the voters. Those interest earnings did not become available because of changes in federal tax laws. This bond measure would replace those lost interest earnings.

The proceeds remaining in the 1988 Prison Construction Bond Fund would be used to buy land and construct, remodel, and maintain youth and adult correctional facilities, as determined by the Governor and the Legislature. The Legislature already has approved (contingent

upon passage of this bond measure) (1) \$147 million for construction of a prison in northern Los Angeles County and (2) about \$43 million in the 1988 Budget Act for maintenance and alteration of existing prisons and for administrative costs associated with the prison construction program.

### Fiscal Effect

**Direct Cost of Paying Off the Bonds.** For these types of bonds, the state typically would make principal and interest payments from the state's General Fund over a period of about 20 years. If all of the authorized bonds were sold at an interest rate of 7.5 percent, the cost would

be about \$1.5 billion to pay off the principal (\$817 million) and interest (about \$650 million). The average payment would be about \$70 million per year.

**Borrowing Costs for Other Bonds.** By increasing the amount which the state borrows, this measure may cause the state and local governments to pay more under other bond programs. These costs cannot be estimated.

**State Revenues.** The people who buy these bonds are not required to pay state income tax on the interest they earn. Therefore, if California taxpayers buy these bonds instead of making taxable investments, the state would collect less taxes. This loss of revenue cannot be estimated.

## Text of Proposed Law

This law proposed by Senate Bill 468 (Statutes of 1988, Ch. 43), as amended by SB 406 (Statutes of 1988, Ch. 386), is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law adds sections to the Penal Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

### PROPOSED LAW

SEC. 2. Chapter 15 (commencing with Section 7400) is added to Title 7 of Part 3 of the Penal Code, to read:

#### CHAPTER 15. NEW PRISON CONSTRUCTION BOND ACT OF 1988

7400. This chapter shall be known and may be cited as the New Prison Construction Bond Act of 1988.

7401. The State General Obligation Bond Law is adopted for the purpose of the issuance, sale and repayment of, and otherwise providing with respect to, the bonds authorized to be issued by this chapter, and the provisions of that law are included in this chapter as though set out in full in this chapter except that, notwithstanding anything in the State General Obligation Bond Law, the maximum maturity of the bonds shall not exceed 20 years from the date of each respective series. The maturity of each respective series shall be calculated from the date of that series.

7402. There is in the State Treasury the 1988 Prison Construction Fund, which fund is hereby created. The proceeds of the sale of bonds authorized by this act shall be deposited in the fund, and may be transferred upon request of the Department of Corrections and upon approval of the Director of Finance, to the New Prison Construction Fund established by Section 7102, the 1984 Prison Construction Fund established by Section 7202, or the 1986 Prison Construction Fund established by Section 7302, or any combination thereof. If the moneys are so transferred, "fund" means the New Prison Construction Fund, 1984 Prison Construction Fund, or 1986 Prison Construction Fund, or any combination thereof, as is appropriate. At least 30 days prior to requesting a transfer as authorized by this section, the Department of Corrections shall notify the chairpersons of the fiscal committees in each house of the Legislature, and the Chairperson and the Vice Chairperson of the Joint Legislative Budget Committee.

7403. The 1988 Prison Construction Committee is hereby created. The committee shall consist of the Controller, the Treasurer, and the Director of Finance. That committee shall be the "committee," as that term is used in the State General Obligation Bond Law.

The Department of Corrections is the "board" for the purpose of the State General Obligation Bond Law and this chapter.

7404. The committee is hereby authorized and empowered to create a debt or debts, liability or liabilities, of the State of California, in the aggregate principal amount of eight hundred seventeen million dollars (\$817,000,000), exclusive of refunding bonds, in the manner provided in this chapter. That debt or debts, liability or liabilities, shall be created for the purpose of providing the fund to be used for the object and work specified in Section 7406.

7405. The committee may determine whether or not it is necessary or desirable to issue any bonds authorized under this chapter, and if so, the amount of bonds then to be issued and sold. The committee may authorize the Treasurer to sell all or any part of the bonds herein authorized at such time or times as may be fixed by the Treasurer.

7406. (a) Except as provided in subdivision (b), the moneys in the fund shall be used for the acquisition, construction, renovation, remodeling, and deferred maintenance of state youth and adult correctional facilities.

(b) Of the moneys in the fund, forty million dollars (\$40,000,000) is hereby appropriated to the Board of Corrections to fund those projects entitled to be funded under subdivision (c) of Section 3 of Chapter 444

of the Statutes of 1984, as amended, to the extent that those projects have not received full funding and for any costs associated with the sale of bonds and any administrative costs incurred by the Board of Corrections in the administration of the County Jail Capital Expenditure Bond Acts of 1981 and 1984 and the County Correctional Facility Capital Expenditure Bond Act of 1986.

(c) Notwithstanding subdivision (b) of Section 11 of Chapter 1519 of the Statutes of 1986 or any other provision of law to the contrary, and subject to the annual Budget Act appropriations by the Legislature, administrative costs shall not exceed 1½ percent of the amount allocated for any costs incurred by the Board of Corrections in the administration of the County Jail Capital Expenditure Bond Acts of 1981 and 1984 and the County Correctional Facility Capital Expenditure Bond Act of 1986.

7407. (a) All bonds herein authorized, which shall have been duly sold and delivered as herein provided, shall constitute valid and legally binding general obligations of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both the principal thereof and interest thereon.

(b) There shall be collected annually in the same manner and at the same time as other state revenue is collected such a sum, in addition to the ordinary revenues of the state, as shall be required to pay the principal of and interest on those bonds, and it is hereby made the duty of all officers charged by law with any duty in regard to the collection of that revenue to do and perform each and every act which shall be necessary to collect that additional sum.

(c) All money deposited in the fund which has been derived from premiums or accrued interest on bonds sold shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

(d) All money deposited in the fund pursuant to any provision of law requiring repayments to the state which are financed by the proceeds of the bonds authorized by this chapter shall be available for transfer to the General Fund. When transferred to the General Fund that money shall be applied as a reimbursement to the General Fund on account of the principal of and interest on the bonds which has been paid from the General Fund.

7408. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund in the State Treasury for the purpose of this chapter such an amount as will equal the following:

(a) That sum annually as will be necessary to pay the principal of and the interest on the bonds issued and sold pursuant to this chapter.

(b) That sum as is necessary to carry out the provisions of Section 7409, which sum is appropriated without regard to fiscal years.

7409. For the purpose of carrying out this chapter, the Director of Finance may by executive order authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which the committee has by resolution authorized to be sold for the purpose of carrying out this chapter. Any amounts withdrawn shall be deposited in the fund and shall be disbursed by the committee in accordance with this chapter. Any money made available under this section to the board shall be returned by the board to the General Fund from moneys received from the sale of bonds sold for the purpose of carrying out this chapter. Those withdrawals from the General Fund shall be returned to the General Fund with interest at the rate which would otherwise have been earned by those sums in the Pooled Money Investment Account.

7410. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out the provisions of this chapter. The amount of the request shall not exceed the amount of the unsold bonds which the committee

Continued on page 114

## Argument in Favor of Proposition 80

In the past ten years the number of felons in our state prisons has increased from 21,000 to almost 75,000 due to the strong enforcement of new, tough laws. However, our state prisons are built to house only about 46,500 convicted felons.

California's institutions are still seriously overcrowded, placing our courageous correctional officers and staff in constant danger. Passage of this bond measure is vital for the safety of our communities, law-abiding citizens and our correctional officers and staff.

In 39 other states, the courts have issued orders limiting the prison population. We must have the funds provided by Proposition 80 to build additional prison facilities—or the courts may begin to let felons out! We must prevent that in California. These bonds will make it possible to

build more prison space so that we can remove criminals from neighborhoods and keep them where they belong.

This bond measure will cost less than \$3 per year for each Californian, and will not cause any tax increase. This is a small price to pay to keep convicted felons away from our families and our homes.

If you want fewer criminals on the streets and more criminals behind bars, vote "YES" on Proposition 80.

**GEORGE DEUKMEJIAN**  
*Governor*

**ROBERT PRESLEY**  
*State Senator, 36th District*  
*Chairman, Joint Legislative Committee on*  
*Prison Construction and Operations*

**LARRY STIRLING**  
*Member of the Assembly, 77th District*  
*Chair, Assembly Committee on Public Safety*

## Rebuttal to Argument in Favor of Proposition 80

As usual, politicians in Sacramento are using scare tactics to win approval of a very expensive state prison bond.

Don't be afraid to vote NO. Instead, be afraid to vote "yes" and see more of the same of California's failed "justice" system.

There is something wrong when the population grows only 21% while the number of alleged felons grows 257% over a ten-year period. Either there is something wrong with the people, or something is wrong with the statistics. We do not believe that tens of thousands of evil felons have moved to California in the last ten years. Government officials have acted to turn more people into criminals by making more of our private actions illegal.

Yes, there is more crime—because drug addicts have to steal and kill to support their habits (which are made expensive by government's "war on drugs").

Yes, there are gangs terrorizing the streets—because California's government educational system has failed to motivate inner city youths.

Yes, there are unemployed people who steal to live—because of taxes, government regulations, and labor laws that keep businesses from creating jobs.

Any rise in crime has been directly caused by the actions of the state and federal governments. People equal before the law, but the uniqueness of each individual cannot continue to be thwarted by politicians and bureaucrats.

The Governor and his legislative allies turn blind eyes to alternatives to incarceration and instead unwittingly act to turn California into a police state. VOTE NO on Proposition 80.

**TED BROWN**  
*Chairman, Libertarian Party of California*  
*Candidate for U.S. Congress, 22nd District*

**KIM J. GOLDSWORTHY**  
*Southern Vice Chairman, Libertarian Party of California*  
*Candidate for U.S. Congress, 30th District*

**WILLIAM J. FULCO**  
*Libertarian Candidate for U.S. Congress, 27th District*

## Argument Against Proposition 80

Proposition 80 asks for \$817 million in bonds for the acquisition, construction, and renovation of state adult and youth correctional facilities. We urge you to vote NO.

Voters approved \$500 million in bonds for the same reason in November 1986, only two years ago. We wonder what the politicians and bureaucrats have used this much money for in such a short amount of time.

Instead of building more prisons, we must completely reevaluate the criminal "justice" system. California has a higher percentage of its residents behind bars than almost any other political subdivision in the world, yet violent crimes are on the upswing. Is it the goal of the politicians to hide from this problem by locking up more and more people? We hope not.

We believe that the people of California are threatened because of improper priorities on the part of law enforcement. The crime rate continues its spiraling climb due to the government's "war on drugs." Cracking down on bulky, hard-to-conceal marijuana merely drove a drug-craving population to cocaine and "crack" use. Outlawing drugs has raised prices to astronomical levels, forcing addicts to rob innocent citizens to support their habits. A person may spend hundreds of dollars a day for chemicals high cost only a few cents to make.

The profits for drug dealers are so high that there is a great deal of violence involved in protecting their "markets" and "turfs." This is a clear parallel to the Prohibition-era gangsters of the 1920's. An obvious solution to at least half the crime in California would be to decriminalize drugs and thus put the drug dealers out of

business by making their occupation unprofitable.

The only people who should be sent to prison are those convicted of violating the rights of other people. This group would include murderers, rapists, thieves, defrauders, etc. The purpose of prison should not just be detention, however. Criminals must be made responsible for their actions by paying restitution to their victims—and to the taxpayers for their room and board while in prison.

Currently it costs more to keep people in prison than to house them in luxury condos. To solve this problem, in many parts of the country, governments are contracting out prison responsibilities to private companies. Since free enterprise is involved, the businesses have a motivation to keep down costs while providing an acceptable service. It would seem a reasonable step to sell California's existing prisons to economically efficient private companies and turn over all *real* criminals to their care and control.

Innovative reforms are needed, not just more of the same. California's bonded indebtedness rises with each election due to the massive amounts of bond measures presented for voter approval. Now it is time to say NO to more of this debt. Vote NO on Proposition 80 and vote NO no all the other bond measures on this ballot.

**TED BROWN**

*Chairman, Libertarian Party of California  
Candidate for U.S. Congress, 22nd District*

**KIM J. GOLDSWORTHY**

*Southern Vice Chairman, Libertarian Party of California  
Candidate for U.S. Congress, 30th District*

**WILLIAM J. FULCO**

*Libertarian Candidate for U.S. Congress, 27th District*

## Rebuttal to Argument Against Proposition 80

The State of California has continued to vigorously pursue a prison construction program that has allowed us to open fourteen new prisons, containing nearly 19,000 new beds for convicted felons.

**EVEN WITH THIS TREMENDOUS BUILDING EFFORT OUR PRISON SYSTEM IS STILL 158% OVER CAPACITY, PROVIDING THE CONSTANT POTENTIAL FOR PRISON VIOLENCE AND COURT-ORDERED RELEASES OF DANGEROUS AND VIOLENT CRIMINALS.**

If Proposition 80 does not pass, there will be no money to continue the prison construction program; since January of this year the prison population has increased by almost 200 convicted felons a week, and is predicted to reach 180% of capacity by 1993, or almost 100,000 inmates!

**WE MUST GUARANTEE THAT OUR LAW ENFORCEMENT AGENCIES' EFFORTS TO STOP THE**

**DRUG- AND GANG-RELATED VIOLENCE ARE NOT THWARTED BY OUR INABILITY TO PROVIDE SUFFICIENT PRISON SPACE FOR THESE CRIMINALS.**

Is \$3 a year for each member of your family worth it to you to remove convicted felons from your neighborhood and put them in secure state prisons so they won't be able to terrorize you and your family? We think it's a wise and safe investment. We urge you to vote YES for continued public safety by voting YES on Proposition 80.

**GEORGE DEUKMEJIAN**

*Governor*

**ROBERT PRESLEY**

*State Senator, 36th District  
Chairman, Joint Legislative Committee on  
Prison Construction and Operations*

**LARRY STIRLING**

*Member of the Assembly, 77th District  
Chair, Assembly Committee on Public Safety*

## Proposition 79: Text of Proposed Law

Continued from page 9

17698.60. In computing the net interest cost under Section 16754 of the Government Code, interest shall be computed from the date of the bonds or the last preceding interest payment date, whichever is latest, to the respective maturity dates of the bonds then offered for sale at the coupon rate or rates specified in the bid, the computation to be made on a 360-day-year basis.

17698.70. The committee may authorize the Treasurer to sell all or any part of the bonds herein authorized at such time or times as may be fixed by the Treasurer.

17698.80. All proceeds from the sale of the bonds herein authorized deposited in the fund, as provided in Section 16757 of the Government Code, except those derived from premium and accrued interest, shall be available for the purpose herein provided, but shall not be available for transfer to the General Fund pursuant to Section 17698.25 to pay principal and interest on bonds.

17698.90. With respect to the proceeds of bonds authorized by this chapter, all provisions of Chapter 22 (commencing with Section 17700) shall apply.

17698.93. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance and sale or exchange of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 4 of Title 2 of the Government Code. The approval by the electors of this state of the issuance and sale of bonds under this chapter includes approval of the issuance and sale or

exchange of any bonds issued to refund either those bonds or any previously issued refunding bonds.

17698.95. Out of the first money realized from the sale of bonds under this chapter, there shall be repaid any moneys advanced or loaned to the State School Building Lease-Purchase Fund under a: of the Legislature, together with interest provided for in that act.

17698.96. (a) Of the proceeds from the sale of bonds pursuant to this chapter:

(1) Not more than one hundred million dollars (\$100,000,000) may be used for the reconstruction or modernization of facilities within the meaning of Chapter 22 (commencing with Section 17700).

(2) Not more than twenty million dollars (\$20,000,000) may be used for the purchase and installation of air-conditioning equipment and insulation materials pursuant to Section 42250.1.

(3) Not more than one hundred million dollars (\$100,000,000) may be used for the identification, assessment, and abatement of hazardous asbestos in school facilities.

(b) Notwithstanding subdivision (a), in the event the board determines at any time that the maximum amount made available pursuant to any of the paragraphs in that subdivision exceeds the amount necessary to fund the qualified recipients of the apportionment authorized under that paragraph, the board may expend any portion of that excess for the construction of new school facilities pursuant to Chapter 22 (commencing with Section 17700) or for any one or more of the purposes described in subdivision (a).

## Proposition 80: Text of Proposed Law

Continued from page 13

has by resolution authorized to be sold for the purpose of carrying out this chapter. The board shall execute any documents required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

7411. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance of refunding bonds in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 2 of Title 2 of the Government Code. Approval by the electors of the state for the issuance of bonds shall include the approval of the issuance of any bonds issued to refund any bonds originally issued or any

previously issued refunding bonds.

7412. All proceeds from the sale of bonds, except those derived from premiums and accrued interest, shall be available for the purpose provided in Section 7406 but shall not be available for transfer to the General Fund to pay the principal of and interest on bonds. The money in the fund may be expended only as herein provided.

7413. Money in the fund may only be expended pursuant to appropriations by the Legislature.

7414. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is subject to the limitations imposed by that article.

## Proposition 81: Text of Proposed Law

Continued from page 17

(3) An agreement by the public agency, (A) to proceed expeditiously with, and complete, the project, (B) to commence operation of the project upon completion thereof, and to properly operate and maintain the project in accordance with the applicable provisions of law, (C) to apply for, and make reasonable efforts to secure, federal assistance for the project, (D) to secure approval of the department and of the State Department of Health Services before applying for federal assistance in order to maximize and best utilize the amounts of that assistance available, and (E) to provide for payment of the public agency's share of the cost of the project, if any.

14013. Applications for loans and grants under this chapter shall be made to the department in the form and with the supporting material as prescribed by the department.

14014. The department shall prepare an annual report on all grant commitments made, or grant contracts entered into, pursuant to this chapter. The report shall be filed with the Legislature, if it is in session or, if it is not in session, with the Joint Rules Committee. The report shall be filed on or before January 31 of each year for grant commitments made, or grant contracts entered into, by the department during the previous calendar year.

14015. (a) Loans and grants may be made only for projects for domestic water systems. The State Department of Health Services may make reasonable allowance for future water supply needs and may provide for additional capacity when excessive costs would be incurred by later enlargement. The loans and grants may be made for all, or any part, of the cost of constructing, improving, or rehabilitating any system when, in the judgment of the State Department of Health Services, improvement or rehabilitation is necessary to provide pure, wholesome, and potable water in adequate quantity at sufficient pressure for health, cleanliness, and other domestic purposes. The State Department of Health Services shall determine and notify applicants of eligibility of components requested to be included in the proposed project. The department shall use this determination as a basis for disbursing funds. No single public agency shall receive grants pursuant to this chapter totaling more than four hundred thousand dollars (\$400,000). Loans may be made to provide for the purchase of a water system or the purchase of watershed lands. No loan to an individual supplier shall exceed the sum of five million dollars (\$5,000,000), unless

the Legislature by an act raises the limit specified in this section.

(b) Upon receipt of an application for a grant or loan pursuant to this chapter, the department shall propose to the applicant improvements to the applicant's water development, distribution, and utilization system which will conserve water in a cost-effective manner. These improvements may include, but need not be limited to, leak detection and repair programs, valve repair and replacement, meter calibration and replacement, physical improvements to achieve corrosion control, distribution and installation of water conservation devices and fixtures, and other capital improvements which can be demonstrated to conserve water in a cost-effective manner. The department and applicant may agree to include these capital improvements in the grant or loan. Failure by the applicant to include water conservation capital improvements in the grant or loan application shall not be sufficient cause for the department to refuse to make the grant or loan.

14016. An application for a grant pursuant to this chapter shall not be approved by the department, unless the State Department of Health Services determines that the public agency is otherwise unable to meet minimum safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

No grant shall be made by the department except upon approval by the State Department of Health Services of project plans submitted by the applicant and upon written approval by the State Department of Health Services that the proposed project is consistent with Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

14017. First priority for grants shall be granted to public agencies having immediate health related problems, as certified by the State Department of Health Services. Additional high priority shall be granted to projects to correct immediate problems, as opposed to grants for construction of projects to meet future growth needs.

14018. First priority for loans shall be given to suppliers with the most critical public health problems. Priority for loans shall also be given to suppliers which have a lesser capability to reasonably finance system improvements.

14019. Preliminary design work, including a cost estimate for the project, shall be completed before a loan or grant is awarded. Operation and maintenance costs shall be the responsibility of the supplier and may not be considered as part of the project cost. Costs for planning and